MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS
AND THE
FINANCE & INSURANCE COMMITTEE MEETING

December 16, 2024

At approximately 7:30 a.m. President Monin called the regular meeting to order.

Vice President Gaskins led the Pledge of Allegiance to the flag.

Committee Members MARK MONIN, MIKE GASKINS, KAY HAVENS, KATHRYN FRESHLEY, and WYATT McCLEAN participated.

Also participating were DENNIS P. CAFFERTY, General Manager, VISHAV SHARMA, CFO, SCOTT HOPKINS, Operations Superintendent, JUDY CIMORELL, Director of Human Resources, GILBERT J. GRANITO, General Counsel, MIKE MIAZGA, IT Manager (Zoom), SHERRI SEITZ, Public Affairs Manager (Zoom), VICKI TANIOUS, Senior Accountant (Zoom), CAROL MOORE, Laguna Woods City Council Member (Zoom), and MARISOL MELENDEZ, Recording Secretary.

Determination of a Quorum

Roll Call:

Director McClean	Present
Director Freshley	Present
Director Havens	Present
Vice President Gaskins	Present
President Monin	Present

Five Board members are present at the meeting and therefore a quorum has been determined.

Oral Communications/Public Comment

There were no comments.

Items Too Late to be Agendized

President Monin asked if there were any items received too late to be agendized. Mr. Cafferty replied no.

Finance and Insurance Committee Meeting

At approximately 7:32 a.m. Director Havens called the Finance and Insurance Committee meeting to order.

Consent Calendar

Director Havens asked for a Motion.

Motion: President Monin made a motion, seconded by Vice President Gaskins to approve the Consent Calendar.

Roll Call Vote:

Director McClean	aye
Director Freshley	aye
Director Havens	aye
Vice President Gaskins	aye
President Monin	aye

Financial Information Items

Rate Setting Legislation

Mr. Cafferty stated that there has been recent legislation that has been highly beneficial to public agencies, providing a reasonable accommodation process that helps avoid costly and challenging litigation. He noted that certain agencies have experienced expensive legal challenges due to the complexities of Proposition 218.

Mr. Cafferty discussed SB 323, which went into effect in 2021. The bill highlights a 120-day statute of limitations, meaning that claims must be filed within 120 days of the new rates' effective date, or the right to challenge the rates is lost. SB 323 also mandates that the Proposition 218 notice to customers include a statement of the 120-day statute of limitations for challenging rates.

Mr. Cafferty discussed SB 1072, approved by the Governor in September of 2024, which addresses the financially debilitating impacts of litigations, most notable in the Otay and San Diego cases. Otay Water District is facing an $18 million refund requirement which will be funded by raising rates and will in turn impact water affordability. SB 1072 provides that rather than giving refunds, these amounts will be applied as credits to future bills. The City of San Diego is currently appealing a case involving approximately $70 million in refunds. Both cases centered around tiered rates and the use of peaking factors to calculate costs which plaintiffs argued that the use of peaking factors did not comply with Proposition 218 requirements. However, AB 1827 which was also approved in September 2024 affirms that peaking factors are an acceptable method for calculating costs within tiered rate structures.

Mr. Cafferty explained that AB 2257 requires that any claims about deficiencies in the rate-setting process must be raised during the rate setting process itself. Rates cannot be challenged once they are established. The legislation also requires a written substantive objection explaining why the rates are deficient. The new legislation will run parallel to the current Proposition 218 process and the District will implement the requirements of AB 2257 into its budget process through a resolution that adopts the necessary procedures and policies. While the 45-day notice to customers remains a requirement, the Proposition 218 notice must specify a deadline for submitting substantive objections. To allow sufficient time for responses, staff is adjusting the schedule, ensuring that the 45-day notice period ends two weeks before the public hearing to allow time for staff to formulate responses to objections that meet the criteria. Mr. Cafferty concluded by emphasizing the importance of public agencies being held accountable while ensuring they have procedures in place to address challenges.

Fiscal Year 2025-26 Budget Process Update

Mr. Cafferty stated that the draft budget timeline is in the package and once the Board Budget Committee is assigned, staff will confirm availability for meetings. He highlighted key considerations for the budget, including the need for a new Proposition 218 notice for the commodity rates, similar to the process followed last year. Regarding the O&M rate increases, Mr. Cafferty explained that these are tied to the CPI Index, which was adjusted during a period of high inflation intended to protect against future inflation. However, with inflation now decreasing, staff will evaluate whether this increase is sufficient to cover rising costs such as power increases and other budget drivers. While staff controlled costs in some areas last year, this year, the O&M rates will be closely examined. The District will need to decide whether to continue with the CPI based approach or adopt a different strategy. Mr. Cafferty stated the Capital charges are still set for an increase, but staff will evaluate what is in the best financial interest of the District particularly regarding reserve levels.

Financial Action Items

Resolution No. 24-12-1 Director's Compensation Policy

Mr. Cafferty explained that minor revisions to the Directors compensation policy are suggested, as indicated by red lines in the package and a motion is needed to approve the policy changes. The Board members shared their input on potential compensation amounts, considering data from a survey of neighboring agencies. January's agenda will include an action item directing staff and counsel to potentially agendize a public hearing in February.

Director Havens asked for a Motion.

Motion: Director Freshley made a motion, seconded by Vice President Gaskins to approve Resolution No. 24-12-1 which adopts the amended El Toro Water District Administrative Code.

Roll Call Vote:

Director McClean	aye
Director Freshley	aye
Director Havens	aye
Vice President Gaskins	aye
President Monin	aye

Resolution No. 24-12-2 Amending the El Toro Water District Internal Revenue Code Section 125 Premium Only Plan

Mr. Cafferty stated that the Section 125 Premium Only Plan enables the District to implement pre-tax processes, such as the 401k plan and HSA. Following the Board's approval of the FSA last month, the plan had to be modified to include sections for the Healthcare FSA and Dependent Care FSA. During the process, Core Documents, who develops and modifies the plan, also made several mostly non-substantive changes.

Director Havens asked for a Motion.

Motion: President Monin made a motion, seconded by Director Freshley to adopt Resolution No. 24-12-2 which amends and restates the Districts IRC Section 125 Premium Only Plan.

Roll Call Vote:

Director McClean	aye
Director Freshley	aye
Director Havens	aye
Vice President Gaskins	aye
President Monin	aye

Metropolitan Water District Reverse Cyclic Program

Mr. Cafferty discussed the draft agreement between MET and MWDOC, as well as a brief letter agreement proposed by MWDOC for individual agencies' participation in the Reverse Cyclic program. This program allows agencies to purchase water at current rates for future delivery, rather than paying the rate at the time of delivery. It provides a guaranteed return and is considered beneficial for participating agencies. He noted that the timing of the program requires a prompt response.

Director Freshley inquired about the timing of MET's water release and the lack of guarantee that the District will receive the water. She also expressed concerns regarding the justification of rates, as they are based on the rate at which the District is purchasing the water. Additionally, she inquired about Raftelis' involvement in the process.

Mr. Cafferty acknowledged the concern about the timing of MET's water delivery and explained that it is in MET's financial interest to return the water as soon as possible, as delaying it results in financial losses for MET. The agreement specifies that the water will be delivered within five years. He clarified that the District will continue receiving its normal amount of water each year. He further described the program as a guaranteed return on investment for the District, considering it a safe investment. The District will invest a portion of its reserves in the program, with the water delivered back at no cost, and the savings will be rolled back into reserves. This investment will be tracked separately from the commodity rate and reported monthly on the finance report as a line item. Initially, the line item will show a negative amount until MET delivers the water at which point it will become positive, allowing the District to track the return on investment and transfer the funds back to normal reserves.

Mr. Cafferty explained that each year, during the District's cost of service study, Raftelis follows the District's direction regarding the use of reserves, either as a supplementary revenue source or as reduction in revenue, ensuring it has no impact on rate setting. Staff will confer with Raftelis to confirm they agree with this approach.

Mr. Cafferty stated that he would inform MWDOC of the Districts intent to participate in the program.

Director Havens asked for a Motion.

Motion: President Monin made a motion, seconded by Vice President Gaskins to 1) authorize the General Manager to request participation in the MWD Reverse Cyclic Program in the amount of up to 1,000-acre feet and at an investment cost of up to $1,256,000 and 2) authorize the General Manager to execute an agreement with the Municipal Water District of Orange County to formalize the participation with MWDOC and reference the Master agreement with Metropolitan Water District.

Roll Call Vote:

Director McClean	aye
Director Freshley	aye
Director Havens	aye
Vice President Gaskins	aye
President Monin	aye

Financial Package - Authorization to Approve Payment of Bills for the Month Ending December 16, 2024 and Receive and File Financial Statements as of November 30, 2024

Director Havens asked for a Motion.

Motion: President Monin made a motion, seconded by Vice President Gaskins to 1) approve, ratify and confirm payment of those bills as set forth in the Payment Summary for the month ending December 16, 2024, and 2) receive and file the Financial Statements for the month ending November 30, 2024.

Roll Call Vote:

Director McClean	aye
Director Freshley	aye
Director Havens	aye
Vice President Gaskins	aye
President Monin	aye

Comments Regarding Non-Agenda FIC Items

Mr. Cafferty stated he and Mr. Sharma have discussed the upcoming implementation of the Financial Package and its presentation in the Board package. The financial package serves two purposes: the first portion is the action item for the Board to approve payment of bills and the second portion is the District's financial report, similar to the operations report. Moving forward, these two items will be separated as an action item for bill approval and the other as an informational item to allow the Board to review and comment on the District's financial activities.

Mr. Sharma provided a follow up on the PFM answers from last months meeting. He addressed one question regarding the paydown speed, offering a partial answer. He also explained that the realized gain of $4 occurred because the District follows a buy and hold strategy, meaning no assets were sold, and gains were realized organically as they matured.

Director Freshley expressed satisfaction with the financial report and inquired if all components of the financial software have been implemented yet. Mr. Sharma responded that a few items are still pending which are scheduled for implementation next year.

Director Havens mentioned a process she learned about at the ACWA conference, called positive pay, which helps prevent check fraud. Mr. Sharma confirmed that the District currently utilizes positive pay.

Adjournment

There being no further business the Finance and Insurance Committee meeting was closed at approximately 8:25 a.m.

Respectfully submitted

MARISOL MELENDEZ
Recording Secretary

APPROVED:

MIKE GASKINS, President
of the El Toro Water District and the
Board of Directors thereof

DENNIS P. CAFFERTY, Secretary
of the El Toro Water District and the
Board of Directors thereof